

IBR Breakfast Series: Idaho wine – past, present and future

by IBR Staff

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A chardonnay harvest at Rose Cottage Vineyard, a Caldwell vineyard managed by Ron Bitner. Courtesy of Ron Bitner.

Each quarter, Idaho Business Review and the law firm of Holland & Hart bring experts to the table to discuss topical issues of concern. June's topic was Idaho transportation.

It's been five years since the last economic impact study, but back then the numbers were impressive: Between 2002 and 2008, the number of wineries in Idaho grew from 11 to 32. In 2008, the industry's economic impact was \$73 million, and it provided 625 jobs.

Now there are 50 wineries and around 1,200 acres of wine grapes. Idaho wines have earned national press and awards, and Idaho wine lovers are looking to increase the state's presence in the national and global wine arenas.

There's still a long way to go: Even in Idaho, local wines make up just 5 percent of the wine market. But winery owners are passionate about their wines, and they are working to develop the right mixture of quality, education and marketing that will take these wines to a new level.

On Sept. 6, the *Idaho Business Review* invited seven industry players to gather around for a breakfast discussion of the past, present and future of Idaho wine. The panelists were Ron Bitner, a biologist and board member for WineAmerica; Moya Shatz Dolsby, executive director of the Idaho Wine Commission; Maurine Johnson, winemaker at Ste. Chapelle Winery; Melanie Krause, co-owner of Cinder Winery; Dave Krick, founding partner of Bittercreek Alehouse and Red Feather Lounge; Earl Sullivan, co-owner of Telaya Wine Co.; and Jim Toomey, director of the University of Idaho Agribusiness Incubator.

Riding the local wave



Dave Krick

Krick: I think pre-recession – as much as we all hated the recession – the focus on local was not nearly as intense as it became during the peak of the recession. If anything, the recession, one thing it did was brought us all back home. We experienced that. We were fortunate that we had a focus as a business on what was going on locally, and so we were a recipient of that. We had our best years during the recession.

Going forward, now that we're coming out of the recession and the economy is growing again, we are starting to see more slick representation from out of state, more focus on marketing and branding, on not just labels but regions, and so I can see that pressure to start expanding the list of wines that come from other areas.

We had this great run during the recession, but I don't think we can take it for granted that people are going to support local going forward. There are more people who are aware of it now, but I think the focus has to be on quality and on education of people who are engaged in the industry, especially direct sales reps and buyers.

Johnson: Ste. Chapelle is the largest winery in Idaho, and we have enjoyed for a number of years having the No. 1 wine. What that wine is has changed from time to time, but I find that our Idaho

consumers are very loyal to Idaho products. For Ste. Chappelle our distribution at this point is probably 50-50, 50 percent inside and 50 percent outside Idaho. Idaho is still a huge, huge part of our market.

Dolsby: Our market share is around 4.5 (percent) to 5 percent. What that means is of all wines sold in the state, only 5 percent is Idaho wine.

In this eat local, drink local movement, the restaurants are seeing support. And they want to support our industry. I'm not afraid to call you out and say, "Hey, if you want me to come to your establishment and buy local food, shouldn't you buy local wine?" It's really hard for people to argue with that.

I ask all my friends, "When you go to a restaurant, ask for Idaho wine, even if you don't want a glass of wine. You don't have to order it. Just ask to see the wine list and ask if they have any Idaho wines." I do it every single time, and it's amazing how much it's changed in the last five years.

Sullivan: For us as a smaller winery, we sell a lot locally, and we have a very good track record working with local restaurants and wine shops to be able to get our product distributed locally. We see a regional focus on Idaho wine, where people in Washington and Oregon and California know of Idaho wine. On the East Coast it's a little bit tougher because there's a misperception – or "lack of a perception" would probably be a better term – of what Idaho wine is.

Locally we have no problems getting people to try it and getting people to want to support what we're trying to accomplish.

Bitner: Ten years ago we couldn't get a restaurant in the valley to take our wines. Part of that is because we are small and handcrafted; we do 10,000 bottles a year, and we're not growing. Because we make small, high-quality wines, they cost more, and I understand (at) the restaurants, by the time we sell them wholesale and it's marked up three times, our wines are \$50 to \$60. People aren't used to paying that for a cabernet. But that's changing. But there is still a market we have to penetrate more. For the small wineries especially, that comes back to educating people on why it costs so much to make those 10,000 bottles of wine.



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Crowds at the Idaho Wine Commission's Savor Idaho event in 2012. The event is held at the Idaho

Looking to Washington and Oregon

Bitner: I planted my vineyard in 1981 when there were two wineries in Idaho and 18 in Washington state. Washington state has, what, 700-plus wineries now? It's a \$9 billion-a-year industry. One of the things that have held us back over the years is the conservative attitudes about wine. Then we started doing the economic impact studies and getting the \$73 million, and that sounds like a lot. But the state of Washington embraced it early on, and the industry grew a lot – it grew



Ron Bitner

Krause: I started my career in Washington state, so I have a pretty good feel for some of the growth of that state. We did have some large companies whose parent companies were even more enormous planting and investing in that state, so besides state support they had enormous amounts of private investment in their industry. That's probably the biggest factor in why they have grown so much faster than we have.

Krick: I've been a couple times to Oregon pinot camp, and I've been to Walla Walla for their experience. I think we're at that point where we really need to start working on some experience-based education. ... (The key is) getting thought leaders into the vineyards and into the wineries so they can experience what is special here.

(Oregon's camp) was three or four days where basically you work. You get there and it's classes, you're in the vineyards, and what you hear is why what they do is special by experiencing it. So we do a lot of tasting, we do a lot of walking around through the vineyards and seeing what it is they do in the vineyards and how they make them work, and then we go back and do a lot more tasting and have conversations about their industry and the challenges of their unique place.

In Idaho, I've been out and visited the vineyards and the wineries, and what we have here is at least as compelling a story, if not a more compelling story. I think what we do is really interesting and really special.

It's not a cheap endeavor, and it's not just the wine industry itself – it's all the stakeholders who have to come together and put that together.

Economic opportunity



Moya Shatz
Dolsby

Dolsby: Most Idaho wineries are getting fruit in-state, but that might change because we only have 1,200 acres currently, and those grapes are being used. We're going to need more grapes, so that's a big opportunity for wineries and people who are interested in the wine industry to go out there and plant. I get a lot of calls from people who say, "Oh, I want to plant grapes." I say, "No, wait, do a little research." Because one: It's expensive. You want to make sure you plant the right thing; you want to talk to the right people.

Krause: We have had some excess grapes in the past few years, and we've just sort of come even in the last year or two. There pretty much aren't any unsold grapes at this point.

I did a back-of-the-napkin calculation once; I said, "Let's say we have 25 wineries that each grow by 1,000 cases each, for example. We're going to need something like 80 to 100 acres planted very soon just to sustain the growth of these very small wineries, and that doesn't put in big wineries like Ste. Chapelle growing or anything like that." So there's a lot of potential for planting, but of course it needs to be the right planting and sustainable business.

Sullivan: There are things that exist in other wine regions that don't exist in this region, and we're starting to see people talk about those things – things like mobile bottling. In Washington we used a service where our winery didn't have to have a bottling unit. A guy pulled up in a vehicle outside, ran all the process through the filters and the tanks, had a crew, and could do 1,000 cases in a day. That type of service doesn't necessarily exist here in Idaho where we have the ability to go down the street if one of our hoses breaks ... or if we need tartaric acid. It doesn't exist; we have to go over to Washington or order in.

There are all kinds of services that support a winery, not just the restaurants or buyers. As private industry sees the opportunity with 50 wineries now, and with that continuing to grow, I think more people are going to get involved and see the economic opportunity. That's a long-term, viable solution.

At the Statehouse



Earl
Sullivan

Sullivan: There is opportunity for the state and for other entities to get involved in promoting the region and trying to find some kind of credits for first-time growers, or for planting a vineyard. There could be some kind of offsets to help. We don't see that on the winery side yet.

Dolsby: We just sponsored a huge agriculture tour for all the legislative constituents. They had a vineyard tour and they had a great dinner out at Sawtooth Winery. So actually taking them out there and showing them the grapes, showing them the wine, is a big, big step.

They are actually pretty darn supportive. Almost every piece of legislation we put in front of them they pass because they see the economic impact. That's why economic impact studies are so important. We just have to continue to keep educating.

(Possible incentives for farmers) is a conversation that we'd like to have this year. We've had little conversations about tax benefits and incentives, but I think in order to lure these big companies here, that's going to have to be a serious conversation that to my knowledge hasn't taken place yet.

Krause: From my perspective as a winery owner, the best thing the state can do is just stay out of our way, not regulate us. We actually do live in a good state for that. Being able to pour at farmers markets is something that Idaho has been able to do, and other western states haven't been able to do.

Generally speaking, they ignore us, and that's fine; that's the way I'd like to keep it. I would hate to see incentives for planting grapes, getting vineyards planted that are in the long-term not sustainable because they are in the wrong place or of the wrong variety. Vineyards are a 30-year investment and incredibly capital-intensive, so it's not something you want to approach without a very serious mindset and a heck of a lot of study and attention and an end buyer. So the seriousness and the degree of investment and risk that is involved makes it a very difficult thing for taxpayers to want to support, and I'm sure some people will disagree with me, but I think it should be market-driven.

Krick: I think that at the state level, every couple of years we hear, "Raise our beer and wine taxes." It's interesting to me that it always ends up being, "Don't raise our beer and wine taxes," from people that are in the industry, and then people that don't drink (say), "Raise our beer and wine taxes; it's a sin and we should raise them."

And what you never hear is, "Raise our liquor taxes." Ironically, alcohol in the state of Idaho isn't taxed by ethyl alcohol; it's taxed by the package. And when you break down what is alcohol, alcohol is the drug ethyl alcohol that's inside the package. Spirits have the highest concentration of alcohol, and by package they're taxed at the lowest rate. ... When you look at wine, at expensive wine, it's actually taxed at the highest rate if you look at it from a package perspective. It's a misnomer that people don't understand.

Also, I don't know many people that abuse \$80 bottles of wine, but I know plenty who abuse \$5 bottles of vodka.

Financing and executing a long-term commitment

Krause: It ultimately comes down to an agreement between the winery and the grower to plant. I'm looking to my own company for future growth, and I've signed long-term contracts on several acres



Bitner Vineyards chardonnay grapes, with the Snake River in the background. Courtesy of Ron Bitner.



Melanie
Krause

so I know in four to five years I'll be able to make the wines we're making now.

There's an enormous amount of private financing in the wine industry. It's the vast majority. It is possible to have banks finance businesses, but it's much smaller. My company, Cinder, we've done it with bank loans, but it's a slow process. I make 300 cases of wine and start to sell it and then leverage the next vintage and borrow a little bit more, and I'm slowly increasing my borrowing base – it's certainly not a formula for enormous growth in a rapid timeframe.

Sullivan: We're doing the same thing. We're going out and identifying people who are interested in planting sites, whether they're currently in orchard production or whether they're fallow, and finding the right site for the right type of fruit that we want for our profile. Then we're entering into long-term contracts where they are going to start planting next year or the year after.

It will be three to five seasons before you get the first viable fruit out of it. So it's a long-term commitment.

We have red wines that we produced last season, from the 2012 harvest, that will go to bottling at the end of this year that we'll let sit for six to eight months before we release. We'll be selling that in 2014. We've had to cash-flow carry on that for over a year now and going into two years when we go to sell it. There's a lot of private financing, a lot of people who have decided to get into this as a second career and who have brought money to the game.

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Workforce

Bitner: I don't think the limiting factor is financing; I think it's undocumented migrant workers that nobody addresses. Each acre typically has 750 to 800 plants per acre, and those plants are touched five times individually during the season by migrant workers. About 90 percent of those are undocumented. We're not going to have the workforce in the next five years to do the big acres.

There are spots to grow the wine grapes, but there aren't the workers to do it. We're getting no help from our congressional delegation documenting these people and taking care of these people. We need to grow vineyards, but to me there is a workforce that needs to be taken care of.

Jim Toomey and I were in Spain two years ago, and I admired how the Spanish do it. They weren't finishing some of their production side of it; they were building houses, homes, playgrounds for their workers. For them, workers come first; here it's the opposite.

Krause: From my own perspective, it would be great to have some big wine companies come in and plant big acres. What that would mean for me is if they could plant a 100-acre vineyard for their own production, I can have them, or whoever it is that is planting for them, plant another two acres for me – which two acres is not really good business. But if two acres is part of the 100-acre vineyard, then that works and I can get grapes easier.

Some of the big companies have a pretty substantial crew that is year-round. Because grapes are so intensely worked, you can sustain maybe not your whole labor force, but a large part of it, throughout the whole year. So it's not quite as difficult as some of the other crops that have no work to do or a little work to do, then all of a sudden have to be harvested.

Johnson: Our largest grower is Skyline Vineyard, and they have a pretty much a year-round crew. Our other large grower is Symms Fruit Ranch, and I know they have labor issues, but they do have year-round crews, so that helps a lot.

Toomey: There's 30 percent unemployment in Spain, 50 percent under the age of 30. There are a lot of very young, talented people who are looking for opportunities. There could be some potential out of the Basque country if someone wants to work on that.



Maurine
Johnson

Branding and marketing

Dolsby: As far as a national campaign to promote the Idaho wine industry, I really believe you have to start local first, because our money can be best spent here.

If I educate all of you, you'll then all become my ambassadors, so when you travel and visit your family in Seattle or New York City or Sacramento, you'll bring wine. That's not to say we don't participate in other events. We participate in the Seattle Food and Wine Festival; we participated in a big Sunset Magazine event last year. But it's very selective on what we do, because until we conquer Idaho, I honestly think we'd be wasting our money to go elsewhere. Because some of these wineries are so small.

Krick: Ketchum has a great wine auction and wine event, and it brings a lot of Learjets into our area. We have people come through the restaurant – world-class sommeliers. We've had a hard time getting Idaho wine into their hands for quite a few years, and now what we do is we make them taste it blind. We don't tell them what it is. And that's been a good experience.

Toomey: I think the major demand-side constraint these guys face is just what people are able to pay locally. These guys all produce fabulous wines that would command so much more out of state. It's a real struggle. I know Ron took some of his wines to California and people were suspicious because the prices were so low. When people do come in from out of the area, they are stunned at all the great things that are available.

Sullivan: It's important to tell people about Idaho wine and the experience they can have. Down at our place, we have kind of the urban wine experience, which is different from going over to the Sunnyslope. They can have all kinds of different wine experiences in the state and start to develop those, whether they're out at the slope or downtown or going to tasting rooms. We've had writers through every week for the last couple weeks. A wine enthusiast was through recently, and we had a New York writer come through last week. We're always willing to meet with people who are coming in from out of town or local people who are interested in what is going on, or who want to learn more about the industry and be a part of the industry.

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